

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER, MAY 2014

DEGREE/ DIPLOMA AND

YEAR OF STUDY : B.COM LEVEL 6

TITLE OF PAPER : FINANCIAL ACCOUNTING IV

COURSE CODE : AC501 (M) MAY 2014 (PART-TIME)

TIME ALLOWED : THREE (3) HOURS

TOTAL MARKS : 100 MARKS

- INSTRUCTIONS
- 1 There are four (4) questions on this paper.
 - 2 Answer all four (4) questions.
 - 2 Begin the solution to each question on a new page.
 - 3 The marks awarded for a question are indicated at the end of each question.
 - 4 Show all necessary workings.
 - 5 Calculations are to be made to zero decimal places of accuracy, unless otherwise instructed.

Note: You are reminded that in assessing your work, account will be taken of accuracy of the language and general quality of expression, together with layout and presentation of your answer.

SPECIAL REQUIREMENTS: CALCULATOR

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR OR SUPERVISOR.

QUESTION 1

The Statement of financial position of Anstone Co, Yals Co and Zoo Co at 31 March 2014 are summarized as follows.

	Anstone Co E	Yals Co E	Zoo Co E
Non current assets			
Freehold property	100,000	100,000	-
Plant and machinery	210,000	80,000	3,000
	<u>310,000</u>	<u>180,000</u>	<u>3,000</u>
Investment in subsidiaries			
Shares, at cost	110,000	6,200	-
Loan account	-	3,800	-
Current accounts	10,000	12,200	-
	<u>120,000</u>	<u>22,200</u>	<u>-</u>
Current assets			
Inventories	170,000	20,500	15,000
Receivables	140,000	50,000	1,000
Cash at bank	60,000	16,500	4,000
	<u>370,000</u>	<u>87,000</u>	<u>20,000</u>
	<u>800,000</u>	<u>289,200</u>	<u>23,000</u>
Equity and liabilities			
Equity			
Ordinary share capital	200,000	100,000	10,000
Retained earnings	379,600	129,200	-1,000
	<u>579,600</u>	<u>229,200</u>	<u>9,000</u>
Current liabilities			
Trade payables	160,400	40,200	800
Due to Anstone	-	12,800	600
Due to Yals Co	-	-	12,600
Taxation	60,000	7,000	-
	<u>220,400</u>	<u>60,000</u>	<u>14,000</u>
	<u>800,000</u>	<u>289,200</u>	<u>23,000</u>

Additional information:

- a) Anstone Co acquired 75% of the shares of Yals Co in 2012 when the credit balance on the retained earnings of that company was E40,000. No dividends have been paid since that date.
- b) Yals Co acquired 80% of the shares in Zoo Co in 2013 when there was a debit balance on the retained earnings of that company of E3,000.
- c) During the year to 31 March 2014 Yals Co purchased inventory from Anstone Co for E20,000 which included a profit mark-up of E4,000 for Anstone Co. At 31 March 2014 one half of this amount was still held in the inventories of Yals Co. Group accounting policies are to make full allowance for unrealized intra-group profits.
- d) It is the group's policy to measure the non-controlling interest at its proportionate share of the fair value of the subsidiary's net assets.

Required:

- i. Prepare Anstone Co's group consolidated statement of financial position at 31 March 2014. (Assume no impairment of goodwill). (13 Marks)
- ii. Prepare minority interest working (2¹/₂ Marks)
- iii. Calculate the goodwill relating to the above transactions (5¹/₂ Marks)
- iv. Calculate the group retained earnings (4 Marks)

Total: (25 Marks)

QUESTION 2

- a) The following information relates to Cornerstone Company Ltd:
- i. The net book value of property, plant and equipment at 30 June 2013 in the statement of financial position of Carlson Co is E1,185,000.
 - ii. The tax written down value of property, plant and equipment at 1 July 2012 was E405,000.
 - iii. During the year ended 30 June 2013, the company bought plant and equipment of E290,000, which is eligible for a full year's wear and tear allowance.
 - iv. Cornerstone Company Ltd bought its freehold property in 1 August 2012 for E600,000. It was revalued in the 2013 accounts to E1,500,000. Ignore depreciation on buildings. No tax allowances were available to Cornerstone Co on the buildings.

Required:

Draft the note for the statement of financial position at 30 June 2013 omitting comparatives, in respect of deferred tax. The applicable tax rate for Cornerstone Co is the current income tax rate for companies in Swaziland of 28%. Wear and tear allowance is at the rate of 25% per annum on a reducing balance basis. **Note:** Your answer must be supported by your workings. (15 Marks)

- b) Briefly discuss the importance of recognizing deferred taxation in the financial statements. (5 Marks)
- c) For the year ended 30 June 2013 Mafucula Trading Co made taxable trading profits of E1,200,000 on which tax is payable at 27.5%.
- i. A transfer of E20,000 was made to the deferred tax account. The balance on this account was E100,000 before making any adjustments for items listed in this paragraph.
 - ii. The estimated tax on profits for the year ended 30 June 2012 was E80,000 but now tax has been agreed at E84,000 and fully paid.
 - iii. Tax on profits for the year to 30 June 2013 is payable on 1 May 2014.
 - iv. In the year to 30 June 2013 the company made a capital gain of E60,000 on the sale of some property. This gain is taxable at a rate of 27.5%.

Required:

Calculate the tax charge for the year to 30 June 2013 to be reflected on the statement of comprehensive income. Note: your workings must be shown and marks will be awarded for them. (5 Marks)

Total: (25 Marks)

QUESTION 3

On 1 January 2010 Trevor Company Ltd, a manufacturing entity, bought a machine from Tiwang Ltd under a finance lease that had a cash price of E7,710 by paying an immediate deposit of E2,000. The balance was settled by Trevor Company Ltd in four equal annual instalments commencing on 31 December 2010. Interest on this lease was calculated using the actuarial method at the interest rate of 15% per annum on the capital balance outstanding at the beginning of each year. The machine is to be depreciated at the rate of 25% on a straight line basis assuming a residual value of nil. The spirit of the lease agreement is that ownership is intended to be passed to Trevor Company Ltd on the payment of the last instalment.

Required:

Prepare the relevant ledger accounts as indicated below in respect of the lease for each of the years ended 31 December 2010, 2011, 2012, and 2013 in the books of Trevor Company Ltd.

- a) Machine account. (1 Mark)
- b) Tiwang Ltd loan account. (8 Marks)
- c) Provision for depreciation account of the machine. (5 Marks)
- d) Income statement extract. (4 Marks)
- e) Statement of financial position extract of Trevor Company Ltd showing the correct classification for the non-current and current liabilities for the lease. (7 Marks)

Total: (25 Marks)

QUESTION 4

- a) Discuss the arguments in favour and against the capitalization of leases as outlined in IAS 17. (10 Marks).
- b) State three requirements for the recognition of a provision in accordance with IAS 37. (5 Marks)
- c) Discuss the circumstances that might indicate that an asset is impaired in line with IAS 36. (5 Marks)
- d) What are the conditions for the recognition of revenue from the sale of goods in accordance with IAS 18? (5 Marks)

Total: (25 Marks)